

BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Notice of Market Dominant Price Adjustment

Docket No. R2021-1

COMMENTS OF PITNEY BOWES INC.
(October 29, 2020)

Pursuant to Order No. 5719, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the United States Postal Service's (Postal Service) October 9, 2020 Notice of Market-Dominant Price Change (Notice).

These comments address: (1) the need for changes in the Postal Regulatory Commission's (Commission) workshare rules to maximize pricing and operational efficiency, (2) the importance of maintaining a substantial pricing differential for Metered Letters, and (3) support for the newly proposed policy-based rate incentive for Seamless Acceptance.

I. Changes in the Workshare Rules are Necessary to Help the Postal Service Maximize Pricing and Operational Efficiency

As part of the pending statutory review of the modern rate system, the Commission has found that while the Postal Service has had the pricing authority since 2006 to set workshare prices to maximize incentives to reduce costs and improve efficiency, it has not done so.¹ The Commission has further concluded that the Postal Service's decision not to use its pricing authority to maximize workshare discounts "may have harmed operational efficiency within the postal system" because the Postal Service may have processed more mail at a higher cost than it otherwise would have with more efficient pricing signals to its workshare partners.² Accordingly, the Commission has proposed changes to the workshare rules that would require the Postal Service to set workshare discounts to

¹ See Docket No. RM2017-3, Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review (Dec. 1, 2017) at 139, 216-19.

² *Id.* at 218.

improve efficiency. The proposed First-Class Mail Presort rates highlight the need for the Commission to adopt the proposed revisions to the workshare rules.

The 5-Digit Automation Letters rate is by far the most important rate for commercial mailers, accounting for more than seventy percent (nearly 25 billion pieces) of all First-Class Mail Presort Letters volume.³ 5-Digit Automation Letters mail is also among the most profitable and efficient mail for the Postal Service to process. Given these facts, it is particularly important that the Postal Service set this rate and underlying discount at efficient levels. The Postal Service could encourage more efficient mail preparation, reduce its own costs, and improve its financial stability by increasing the 5-Digit Automation Letters workshare discount to reflect the full cost avoided, thus, lowering the effective price for mailers that prepare mail to 5-Digit levels. Setting workshare prices to maximize pricing and operational efficiency would cost the Postal Service nothing under the price cap and would be fully consistent with the Postal Service's own volume variability analysis, which shows that automated letter sorting costs are essentially fully variable with changes in workload.⁴

Nevertheless, the Postal Service proposes that the 5-Digit Automation Letters discount remain at 3.0 cents, passing through only 78.9 percent of the FY2019 modeled costs avoided of 3.8 cents.⁵ The proposed 5-Digit Automation Letters discount fails to maximize pricing and operational efficiency and fails to fully compensate mailers and mail service providers for the value of the work they perform on the Postal Service's behalf. The proposed 5-Digit Automation Letters rate would also fail both elements of the Commission's proposed workshare rules.

The Commission has proposed a two-part rule for workshare discounts set below avoided costs. All workshare discounts not already set at full efficient component pricing (ECP) rates must

³ See Docket No. R2021-1, United States Postal Service, Notice of Market-Dominant Price Change (October 9, 2019), USPS-LR-R2021-1/1.

⁴ See Docket No. RM2020-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six) (Sep. 15, 2020). The Petition was accompanied by a study supporting its proposal. See A. Thomas Bozzo & Tim Huegerich, Analysis of Labor Variability for Automated Letter and Flat Sorting, Christensen Associates, September 15, 2020 (Variability Report) at 26-27.

⁵ See Docket No. R2021-1, attachment b r2021-1.xls, "FCM Bulk Letters, Cards", cell G11.

be moved closer to ECP rates, consistent with the Commission’s “do no harm” principle. Under this aspect of the proposed rule, a discount can only be set below costs avoided if it is a new workshare discount, if the discount is increased by 20 percent, or if the discount is set above an 85 percent passthrough floor.⁶ The Commission further proposes to allow limited waiver authority for any workshare discount not moved closer to full ECP rates where the Postal Service can prove that increasing the discount would impede the operational efficiency of the Postal Service.⁷

The Postal Service cannot satisfy the first element of the proposed rule because it did not move the 5-Digit Automation Letters rate closer to full ECP rates, in fact, it moved the 5-Digit Automation Letters rate further away from full ECP rates - from an 88.2 percent passthrough to a passthrough of only 78.9 percent. The 5-Digit Automation Letters rate is not a new workshare discount. The discount has not been increased by 20 percent relative to the last rate adjustment. And by holding the 5-Digit Automation Letters discount at 3.0 cents and passing through only 78.9 percent of the modeled costs avoided, the proposed adjustment does not satisfy even the overly permissive 85 percent passthrough floor. The proposed waiver provisions could not be invoked because the Postal Service could not prove that increasing the 5-Digit Automation Letters rate to passthrough at least 85 percent of the modeled costs avoided would impede operational efficiency.

A workshare discount with a passthrough of less than 85 percent is appropriately deemed “substantially” below avoided costs under the existing rules. *See* 39 C.F.R. 3010.12(b)(6). The current rules require the Postal Service to justify passthroughs that are substantially below avoided costs, *see id.*, yet the Postal Service provides no explanation in the Notice for the fact that the 5-Digit Automation Letters discount only passes through 78.9 percent of the costs avoided. In summary, the current price adjustments with respect to First-Class Mail Presort Letters confirm that inefficient pricing of workshare discounts is an ongoing issue that requires Commission intervention. Pitney

⁶ *See* Docket No. RM2017-3, Order No. 5337 at 206.

⁷ *See id.*

Bowes supports the Commission's proposals to establish clear regulatory standards for workshare discounts to improve operational efficiency and urges the Commission to adopt the proposed improvements (with the modifications recommended by Pitney Bowes) to its workshare regulations.

II. The Single-Piece Rate Design Should Incentivize Secure, Efficient Payment Channels and Encourage Small Businesses to Use Postal Products

Pitney Bowes supports maintaining a meaningful price differential between Stamped Letters and Metered Letters. The Postal Service proposes to increase the Metered Letter rate by one cent, reducing the pricing differential between Single-Piece Stamped Letters and Metered Letters from five to four cents. The Postal Service justifies the change to the Metered Letters rate as part of a multi-year pricing strategy that seeks to balance the effect of price increases upon the general public and business users of the mail. Pitney Bowes recognizes that the rate design involves balancing multiple objectives, but a larger price differential for Metered Letters will help encourage small and medium-sized mailers to use Postal Service products to grow their business. As the Postal Service has observed in previous filings, Metered Letters are also a more secure and efficient payment channel for the Postal Service.⁸ For these reasons, the Commission has repeatedly and correctly held that non-workshare, policy-based pricing differentials, like the Metered Letters rate, are appropriately within the pricing authority granted to the Postal Service under the PAEA.⁹

It bears noting that although the Metered Letters rate is not subject to the cost-based standards applicable to workshare rates under 39 U.S.C. § 3622(e), the net 4.6 cents cost differential between the Metered and Stamped Single-Piece First Class Mail letters provides further justification

⁸ See e.g., Docket No. R2020-1, Notice of Market Dominant Price Adjustment (Oct. 10, 2018) at 7.

⁹ See Docket No. R2019-1, Order No. 5285 (Oct. 24, 2019) at 66 (upholding proposed meter rate as part of an integrated pricing strategy to slow electronic diversion, incentivize more cost efficient channels, and promote intelligent mail as consistent with statutory objectives and factors); see also, Docket No. ACR2016, Annual Compliance Determination (Mar. 28, 2017) at 75-76.

for this discount.¹⁰ Accordingly, Pitney Bowes urges the Postal Service to restore the five cent price differential between Stamped and Metered Letters in future price adjustments.

III. The Postal Service's Use of Price Incentives to Encourage Transparency and Operational Efficiency is Welcome and Appropriate

Pitney Bowes supports the Postal Service's use of pricing incentives to encourage transparency and operational efficiency. The Postal Service proposes to introduce a 0.1 cent per piece rate incentive for Seamless Acceptance. The Seamless Acceptance incentive is not a workshare discount; rather it is a policy-based pricing incentive to "improve the operations of the Postal Service." Notice at 32, citing 39 C.F.R. 3030.523(a)(3). Seamless Acceptance enables the Postal Service to perform automated verifications of Seamless mailings by reconciling electronic documentation submitted by the mailer with barcode scans recorded on mail processing equipment and via handheld scanners, the automated verification results in improved operational efficiency and reduced cost as compared to manual mail verification processes. *See* Notice at 32. The Postal Service also benefits from the enhanced visibility of Seamless Acceptance, which allows for "more accurate postage calculation and for the Postal Service to more easily identify and correct issues with mailings." Notice at 33. The newly proposed Seamless Acceptance incentive will be available to all mailers and mail service providers who enter Seamless Acceptance qualified mailings. The Seamless Acceptance incentive will complement the existing 0.3 cent Full-Service Intelligent Mail barcode discount for First-Class Mail and Marketing Mail.

Pitney Bowes commends the Postal Service for using pricing incentives to stimulate investments by mailers and mail service providers in a more efficient mail stream and urges the Commission to approve the newly proposed Seamless Acceptance price incentive.

¹⁰ *See* Docket No. C2020-2, Order No. 5491 (Apr. 28, 2020) at 23, Table 7, Summary of Cost Differentials Between Metered and Stamped Letters (summarizing the Commission's estimates that the total cost differences, including mail processing, window service, stamp production and distribution, and delivery costs together sum to 4.64 cents per piece).

IV. Conclusion

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

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Michael F. Scanlon
K&L GATES LLP
1601 K Street, NW
Washington, DC 20006
Telephone: (202) 661-3764
E-Mail: michael.scanlon@klgates.com

Counsel to PITNEY BOWES INC.